BAIRD

# A NEW SCHOOL OF THOUGHT

INSIDE THE MULTI-UNIT EARLY CHILDHOOD EDUCATION & YOUTH ENRICHMENT OPPORTUNITY

# A NEW CHAPTER

With a new school year underway in classrooms across the globe, investors are rapidly awakening to a new opportunity that spans the education and franchising markets – multi-unit early childhood education (ECE) and youth enrichment models. Baird continues to see strong appetite in the multi-unit education space from a range of investors – including leading, experienced education investors as well as increasingly consumer-centric investors who are applying their longstanding multi-unit and franchising expertise to the education space.

In the pages ahead, we outline this emerging opportunity, the reasons why investors are excited and compelling companies to watch.

# THE BACKDROP

The pandemic laid the groundwork for significant shifts across the ECE and youth enrichment sectors. On the multi-unit side, the traditional retail model has been turned on its head. Consumers accelerated a migration online during the pandemic, and business models of all types, including franchising, were compelled to adapt.

Meanwhile, COVID tested and ultimately transformed the education world. In many ways, it crystallized the importance of ECE in the eyes of parents, families, and employers alike, shining a light on the central role it plays in a high-functioning economy. ECE is now broadly viewed as an essential service – and for parents, it is increasingly seen as a non-discretionary expense.

Demand is increasing for education and enrichment opportunities. Across the ECE market parents are keenly interested in helping their kids overcome COVID-era learning gaps. The 2022 National Assessment of Educational Progress (NAEP) scores, known as the "Nation's Report Card," revealed sharp declines in math and reading scores for U.S. students. It is a clarion call across the pre-K through grade 12 system that COVID had a material impact for the worse on learning progress in the U.S.

In parallel, parents are looking for ways to supplement their childens' core education with enrichment opportunities. These can include traditional tutoring businesses as well as activity- and health-based models such as swim schools, kids' gyms, and hobby-driven offerings such as music, team sports and coding schools. These business models differ from more traditional ECE and, among other factors, have distinct revenue model, and lifetime value models, as well as, real estate needs.

### COMMON BUSINESS MODELS

There are two predominant business models in the ECE and enrichment market – corporate-owned and franchised. Each has important considerations for investors:

| | OWNED SITES | FRANCHISED |
|---|---|---|
| UNIT GROWTH | Greenfield or acquisition-driven | Highly organic / greenfield |
| BRANDING | Single or multiple brands | Single or multiple brands |
| TUITION / FEES | Centralized – strategy applied to entire system | Recommended pricing – determined at the franchisee level |
| REVENUE | Tuition | Royalties / other fees from franchisees |
| HUMAN CAPITAL | Centrally managed HR function | Franchisee responsible for staffing / HR at the unit level |
| CAPITAL EFFICIENCY | System expansion born by parent company and shareholders | Capital for new units passed on to 3rd parties (franchisees, development partners) |
| UNIT GROWTH POTENTIAL | Unit growth balanced against funding and management bandwidth dynamics | Rapid scaling potential given capital investment and unit development resourced by individual franchisees |
| OPERATIONAL CONSISTENCY | Complete operational control ensures greater adherence to operating model across all units | Franchisor operational influence limited as individual franchisees driving unit-level execution |

# WHY INVESTORS ARE EXCITED

We highlight six key trends that define this unique opportunity:

## 1. MASSIVE TAM

The U.S. ECE and youth enrichment market is large, highly fragmented and poised for continued growth. The **$130 billion ECE market** is expected to post accelerated growth in the post-COVID era, growing at a projected 4–5% annually from 2022–2030 despite the pandemic's stark impact on education, slowing birth rates and teacher shortages. Within ECE, the **$72 billion private center based segment** is expected to match, if not slightly outpace, the growth of the broader ECE market.

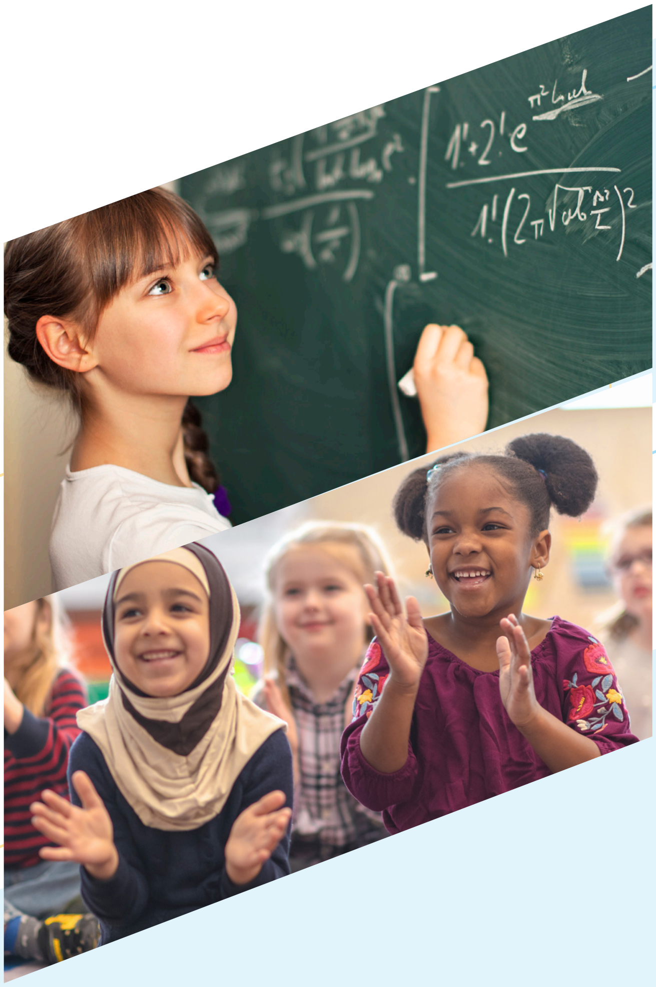
Meanwhile, the **$98 billion+ youth enrichment segment** is poised for further expansion. Increasing demand from parents eager to give their children meaningful experiences that complement their formal education is fueling this space's growth, the market is expected to reach **$127 billion+ in 2025** at a CAGR of 6.7%.[1]

Given these dynamics, it's difficult to overstate the opportunity for investors to rapidly build an existing ECE player, even if relatively small today, into a scaled platform.

## 2. HIGHLY FRAGMENTED COMPETITIVE LANDSCAPE

Within the ECE and youth enrichment ecosystem of approximately **75,000 education centers,** the competitive landscape is dominated by local, subscale providers. Specifically, for ECE, the largest providers represent a total of 4,000+ locations but make up only approximately 5% of the total market.

This fragmented landscape is ripe with opportunities for not just acquisition, but also for sophisticated models to scale relatively quickly and take share. There is a growing trend of consolidation as independent, "mom and pop" owned centers are selling to larger regional and national systems. As boomer-age owner-operators approach retirement and/or consider selling after several years of battling to stay afloat during and following the pandemic, buying activity is ticking up. **Private equity sponsored transactions in the market grew at a ~10% CAGR from 2019–2022.**



### 3. RECESSION RESILIENT, AMAZON PROOF

ECE and youth enrichment have become nondiscretionary expenses for parents. Simply put, parents place ever-higher value on these critical experiences, be it structured early education programming or hobby-based activities, during this crucial time in a child's development. Recent recessions have had minimal impacts on the market. Additionally, the risk of disintermediation by technology remains very low.

Further, the pandemic amplified parents' focus on education quality and the willingness to invest in top-of-the-line learning opportunities for their kids. Consumers of premium ECE and youth enrichment centers are generally **college-educated, dual-income parents earning $100,000–300,000 annually** and tend to be very 'sticky' consumers. A McKinsey survey found that nearly 70% of parents said a tuition increase of up to 20% would not prompt them to switch schools. The COVID era also increased demand for researched-based ECE options, with programs such as Montessori, Reggio Emilia and Waldorf programs in high demand.

### 4. FLEXIBLE BUSINESS MODEL

There is flexibility in the multi-unit ECE and youth enrichment business model, including wholly owned and franchise opportunities. There are unique considerations and advantages to each approach (as outlined on page 2). A model of owned sites centralizes operational, managerial branding and real estate decisions, not to mention profits – an approach that has strong appeal for certain investors.

Meanwhile, a franchise model allows for a capital-efficient mechanism to drive growth. What's unique about this dynamic is investors can apply their own expertise and playbook to an investment in this space. For franchise investors looking to invest outside more traditional segments like restaurants and specialty retail, multi-unit ECE and youth enrichment presents an opportunity to apply skills and knowledge gained through non-education sector investment activity. We are seeing franchise investors embracing the opportunity to define how they want to be successful in this market.

## 5. TANGIBLE GROWTH LEVERS

There are several tactical, actionable ways for investors to drive growth in a multi-unit ECE / youth enrichment investment, including:

- **Greenfield**: It's possible to greenfield these investments – i.e., build them from the ground up. There's demand nationwide for high-quality centers and returns are often very attractive. And, once the investment "formula" is established, it is easy to replicate in new markets.
- **Pricing:** Raising tuition is a growth lever because as discussed above, premium ECE and youth enrichment consumers are not particularly price sensitive. Often, private equity investors can unlock significant value in ECE and youth enrichment investments by driving a thoughtful, disciplined approach to price increases.
- **Operational Efficiency:** Ensuring enrollment and staffing are optimized to drive maximum profitability and leverage of facilities and other fixed cost assets.
- **M&A:** Simply stated, the fragmented ECE and youth enrichment market is full of opportunities to grow through a focused strategy of consolidation. Importantly, there is an attractive value arbitrage from successfully executing acquisition driven growth as enterprise value multiples for scaled platforms far exceed those of small "mom & pop" players.

## 6. COMPELLING UNIT ECONOMICS

Individual ECE and youth enrichment units offer attractive, compelling economics for an investor. They are a unique combination of low-to-moderate initial investment costs paired with robust unit economics, large white space opportunities and highly scalable business models. In our experience, unit level economics can be very attractive with best-in-class concepts generating unit level productivity at 2x sale-to-investment ratios and cash-on-cash returns of 30%+.[2]

## SELECT NOTABLE PLAYERS IN
# MULTI-UNIT ECE / ENRICHMENT

**Big Blue Marble Academy**

**ECE**

Child education provider with unique world-based curriculum

**CODE NINJAS**

**Enrichment**

World's largest youth learn-to-code franchise with locations in U.S., U.K, and Canada

**FOSS SWIM SCHOOL**

**Enrichment**

Modern swim school with personalized learning programs

**fusion**

**K–12**

Private middle and high school offering 1:1 learning environment

**guidepost montessori**

**ECE**

World's largest network of Montessori early learning centers

**Lightbridge Academy**

**ECE**

Early learning franchise known for exceptional customer service

**KIDS&US**

**Enrichment**

English language training in non-English speaking countries

**Kids R Kids Learning Academy**

**ECE**

National franchise of early learning centers

**MATHNASIUM**

**Enrichment**

K-12 math learning centers with 1,000+ locations globally

**n. family club**

**ECE**

Premium ECE provider based in the U.K.

**Otter LEARNING**

**ECE**

Provider of early learning and K-5 education

**o2b KIDS!**

**ECE & Enrichment**

Provider of early learning, pre-school and enrichment programming

**UNLEASHED BRANDS**

**Enrichment**

Platform of youth enrichment brands

**WorldStrides Educational Travel & Experiences**

**Enrichment**

Provider of educational travel and experiences to 530k+ students annually

**YOUTH ATHLETES UNITED**

**Enrichment**

Youth sports platform focused on empowering toddlers to teens through sports

**YEB YOUTH ENRICHMENT BRANDS**

**Enrichment**

Growing youth activities platform offering camps, leagues, classes and other experiences

# WORKING WITH BAIRD

Baird Global Investment Banking delivers premier knowledge and buyer access via our dedicated industry banker focus, proven "one P&L" approach, strong call point into all priority buyers, and highly relevant transaction experience. Pairing our Multi-Unit & Franchising practice with our leading Knowledge Solutions coverage gives Baird a unique positioning in the multi-unit ECE and enrichment market.

School of Rock
Sterling Partners
YEB Youth Enrichment Brands

Endeavor Schools
A Portfolio Company of
LEEDS Equity Partners
Sale to
TSG Consumer

Goddard Systems, Inc. Franchisor of the Goddard School
A Portfolio Company of
Wind River Holdings
Sale to
Sycamore Partners

*
inspired
Minority Investment from
Stonepeak

Morgan Stanley Capital Partners
Acquisition of
Emler swim school

Schülerhilfe!
A Portfolio Company of
Paragon Partners / Syntegra Capital
Sale to
Deutsche Beteiligungs AG

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Cognita
A Portfolio Company of
Bregal Investments and KKR
Sale to
Jacobs Holding

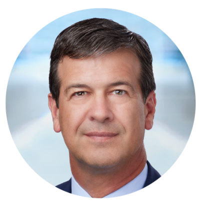
Stratford School
A Portfolio Company of
Warburg Pincus and Quad Partners
Sale to
春華 Primavera

WorldStrides
A Company Majority-Owned by
The Carlyle Group
Sale to
Metalmark Capital
Silverhawk Capital Partners

Primrose Schools
A Portfolio Company of
American Capital
Sale to
Roark Capital Group

### CONNECT WITH OUR TEAM

**We welcome the opportunity to connect with you and discuss both the ideas in this piece, companies in the ECE and enrichment space and our unique coverage.**

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[1] Research and Markets, "$88+ Billion Child and Youth Services Global Market to 2030 – Identify Growth Segments for Investment." PR Newswire, June 08, 2021.
[2] Baird internal resources.
*Represents transactions completed by a Baird banker while at a prior investment bank.